

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
SUPPLEMENTAL RECORD REQUESTS OF THE
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY
D.T.E. 01-81

Date: February 14, 2003

Witness Responsible: Joseph A. Ferro

DTE-RR Sup. 1-7:

Please describe the difficulties that the Company will encounter if it were to apply the MBA methodology to determine the contracts that are used to serve residential loads.

Response: The underlying principle of the MBA methodology is that rate classes should be assigned costs based on their load shapes; the requirements within the load shapes are matched up against the Company's portfolio. The Company's portfolio is segregated or "layered" based on the ranking of the total costs of the resource, including both demand and commodity costs. The lowest cost resources on a 100% load factor unit cost basis are typically long-haul year-round pipeline natural gas supplies, and as such are assigned to meeting the Company's base-load requirements. Each class' portion of the total system's base-load requirements determines the allocation of these base-load resources to each class. The remaining pipeline natural gas makes up the next resource allocated among the rate classes on a proportional responsibility ("PR") basis using the daily dispatch. Finally, the supplemental portion of the portfolio is also allocated based on the PR allocator, and using the daily dispatch.

Because the MBA method serves to allocate annual costs of capacity and supply resources utilizing projected cost data and a hypothetical gas dispatch tied to normal weather, it is not used, nor would it be practical, to allocate actual supplies being dispatched or contracts being purchased on a daily or monthly basis. The Company does not use the MBA method to allocate any actual costs, as the reconciliation of actual costs pursuant to the Company's MBA-based CGAC is performed on a total system basis and is not segregated by class. As such, the CGAC derives one prior period reconciliation adjustment factor (for demand and commodity) that is applied to all classes' Gas Adjustment Factors ("GAF"). Further, the MBA method does not affect Bay State's actual portfolio management decisions or results, which would reflect Bay State's actual resource

strategies, including those implemented directly as a result of the GCIM, and actual weather.

It should also be recognized that the MBA methodology is a means for allocating common costs incurred to meet the gas supply needs of all of Bay State's sales customers. It fairly assigns the forecasted costs of the entire system's portfolio to each class for the purpose of deriving GAFs. The MBA method could not achieve an actual segregation of contracts between the residential and commercial customer groups because satisfying the requirements of each group independently would require additional resources to compensate for the loss of load diversity benefits of a system-wide portfolio that exist when the groups are combined.